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Financial reports and audited financial statements and reports of the Board of Auditors

Financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2004

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report (in advance form) of the Board of Auditors on the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2004.[1] The Committee has also considered an advance copy of the Board's report on the implementation of its recommendations relating to the biennium 2002-2003; the latter covers 15 entities audited by the Board.

2. The Board's report on the capital master plan for the biennium ended 31 December 2004 (A/60/5 (Vol. V)) will be considered by the Advisory Committee when it takes up the report of the Secretary-General on the capital master plan a few weeks after the date of the present report.

3. During its consideration of the reports, the Advisory Committee met with the members of the Audit Operations Committee, who provided additional information and clarification.

II. Financial and management audit of the Office of the United Nations High Commissioner for Refugees

4. The Board of Auditors audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR) for the period from 1 January to 31 December 2004. Audit activities were undertaken at

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UNHCR headquarters in Geneva and its offices in Angola, Eritrea, Ethiopia, Namibia, the Russian Federation and the United States of America (New York) for the same period. The main findings of the Board are listed in the summary of its report.[1]

5. The Board noted that the financial situation at UNHCR remains of concern with an increase of expenditures to $1,065 million and available resources of $1,007 million, resulting in a shortfall of $58 million. The Advisory Committee notes that the deficit of UNHCR increased slightly: for 2002 expenditures amounted to $908 million, with a deficit of $50 million. The Committee also notes the observation of the Board that the UNHCR reserve and fund balance of $142.4 million has not changed significantly since 2002, taking into account inflation and currency fluctuations.

6. The Advisory Committee was informed by the Board that a fluctuating financial situation was "in the nature" of the history of UNHCR and that it is difficult to develop a financial plan for disaster situations. It was explained to the Committee that UNHCR has not yet developed an efficient fund-raising network comparable to that of the United Nations Children's Fund (UNICEF), and this might be a reason for continued deficits. **While mindful of the difficulties faced by UNHCR, the Committee points out that certain analytical methods, including regression analysis, may be helpful in forecasting future financial needs since UNHCR has extensive historical data available. The Committee expects the Board to address the underlying causes of the deficit during its follow-up review and to develop concrete management audit recommendations to assist UNHCR in gradually reducing its deficit without negatively affecting its operations.**

7. With regard to the funding of end-of-service and post-retirement benefit liabilities, the Board concluded in its report that unfunded liabilities for after-service health insurance, accrued annual leave and termination benefits amounted to $336 million in 2004, having increased from $290 million in 2003 and from $263 million in 2002.[2] **The Advisory Committee reiterates its concern in this respect and further addresses this issue in paragraph 23 below.**

8. The Board notes that UNHCR has not fully implemented the Board's recommendation to completely phase out the use of project staff. A total of 1,099 project staff were employed as at 31 December 2001, beyond the UNHCR staffing table of 5,505 posts.[3] The Advisory Committee noted in its previous report on the Board's audit of UNHCR (A/58/384, para. 10) that as at 5 September 2003 the number of project staff had been reduced by 87 per cent, to a total of 145 staff in this category. The Committee commends UNHCR for its significant results in this respect and supports the Board in urging UNHCR to continue its efforts. However, given the importance of this matter, as well as the length of time and managerial commitment by UNHCR required to obtain tangible results, the Committee notes that the Board's report did not include the actual number of project staff as at 31 December 2004. Upon subsequent enquiry, the Committee was informed that the matter would be followed up by the Board during its upcoming audit, at which time an updated number would be available.

9. With regard to UNHCR "staff in between assignments", the Advisory Committee notes that the Board had made specific recommendations in its previous report[4] concerning the practice of retaining staff members who were without

assignment after the expiration of their standard assignment, on special leave with full pay. In that report, the Board had indicated that at the end of December 2002, such staff totalled 113 Professional and 16 General Service. A minority of such staff were not tasked with any assignments, some of them for an extended period of time, for example, as at 1 October 2002, 3 D-1 and 1 P-5 staff members had not worked at all for UNHCR for 15, 30, 43 and 44 months, respectively, while being on special leave with full pay for the entire period. The Committee had requested UNHCR to take urgent action to comply with the recommendations of the Board.[5] Upon enquiry, the Board informed the Committee that follow-up in this respect would be forthcoming. **The Committee looks forward to an update on the situation of staff in between assignments in the Board's follow-up report**.

10. The Board notes the progress made by UNHCR with regard to efforts made in the development of the use of results-based management modalities, with the caveat that further fine-tuning would be required at headquarters and in the evaluation function.[6] **The Advisory Committee shares the Board's view and expects that UNHCR will prepare its budget for 2007 and the biennium 2008-2009 using results-based budgeting guidelines. The Committee trusts that the Board will include a follow-up of the matter in its forthcoming report**.

11. With regard to UNHCR procurement activities, the Board notes that some field offices did not develop procurement plans, vendor rosters and purchase order logs. Also, competitive bidding was not always used.[7] During the deliberations, the Advisory Committee was informed by the Board that competitive bidding was not always used because goods and services had to be obtained at short notice during crisis situations. The Committee notes that this in itself does not necessarily constitute a violation of the Organization's financial regulations and rules. In this respect, financial rule 105.16[8] specifies situations where competitive bidding may not be in the best interest of the Organization, including exigency situations. **The Committee looks forward to further details on this matter in the Board's follow-up report on UNHCR**.

12. With regard to the status of implementation of recommendations, the Board concluded that, as at 31 December 2003, 14 recommendations (32 per cent) were considered implemented and 27 (63 per cent) were under implementation, while 2 (5 per cent) were not implemented.[9] The Advisory Committee notes that the largest number of recommendations under implementation, a total of 14, were in the category of information and communication technology. The Board informed the Committee that implementing changes in information technology and communication is often a long-term process. **Even so, the Committee would welcome an indication of projected time frames reported by management for implementation**. The Committee also notes that the table on the status of implementation for the period ended 31 December 2003[9] does not reconcile actual recommendations made by the Board — or more specifically, the exact number of benchmark recommendations — with those listed in the three implementation categories referred to above. In this respect, the Committee would welcome the inclusion of additional data and analysis, namely: (a) the total number of recommendations made by the Board; (b) the number of recommendations accepted (and not accepted) by the audit client; (c) the number of recommendations deemed unimplementable, with a brief explanation of the reasons; and (d) a chronological tracking, or ageing, table which would indicate clear implementation time frames. The Committee notes that the report of the Board of Auditors on the implementation

of its recommendations relating to the biennium 2002-2003[10] (see section III below) by other United Nations entities shows two additional categories not included with the table on the implementation of recommendations by UNHCR: the number of recommendations made by the Board and the number of recommendations overtaken by events. The Committee looks forward to a streamlining of recommendation status categories in future reports.

III. Financial and management audit of United Nations entities and related implementation of recommendations

13. The report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2002-2003[10] covers 15 United Nations entities on which the Board reports on a biennial basis.[11] With regard to the International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia and the United Nations Joint Staff Pension Fund, the Advisory Committee will consider the Board's findings in conjunction with the three entities' budget proposals during the sixtieth session of the General Assembly.

General comments

14. **The Advisory Committee commends the Board of Auditors for consolidating into one comprehensive report its three separate reports on the implementation of recommendations: two reports of the Secretary-General regarding the United Nations Secretariat, funds and programmes and one report of the Board, following the Committee's recommendation and the resolution subsequently adopted by the General Assembly (resolution 58/249A).**

15. **The Advisory Committee believes that further improvements can be made, in particular with a view to the overall format. As noted in paragraph 12 above, the Committee believes that categories regarding the status of recommendations should be expanded to provide more transparency to all users, including the Administrations of the audited entities. Furthermore, the wide range of work done by the Board could be better reflected in a more reader-friendly report structure, including cross-referencing; with a view to the treatment of cross-cutting issues, thought could also be given to grouping recommendations by topic**. The Committee notes that, to date, only two Administrations (UNHCR and UNICEF) issue official reports responding to external audit findings. In this respect, the Committee notes that the report issued by UNICEF (E/ICEF/2005/AB/L.6) specifies the officer responsible for implementation. **The Committee commends this approach and would welcome a similar approach by the Board, i.e., a specific departmental assignment of responsibility for implementation instead of general organizational responsibility. The Committee believes that the General Assembly may wish to encourage other audited entities to provide the same type of formal feedback but that such reports by various Administrations should be consolidated with the report of the Board, consistent with the consolidation of the implementation reports of the Secretary-General referred to above.**

16. **What is needed is one comprehensive report on implementation. The focal point for the preparation of such a report should be the Board, which should**

integrate the information supplied by the Administrations with its own comments and views.

17. **It should be recalled that while the Board has an interest in ensuring the implementation of its recommendations, primary responsibility for implementation rests with the Administrations of the audited entities. Where the Board has felt the need to reiterate a recommendation, the full background (including reasons for delays) should be given and a time frame for implementation should be specified.**

18. **There should also be a systematic analysis of the impact of the Board's recommendations, as implemented, on the audited entities concerned.**

19. **Findings made by the Board of Auditors are most useful during the Advisory Committee's consideration of budget presentations by various United Nations entities. Therefore, the Committee requests that the Board endeavour to submit its report on the implementation of recommendations early in the second quarter of a calendar year, particularly during odd-numbered years, when the Committee discusses the regular budget for the following biennium during its May-to-July session.**

20. The Advisory Committee notes that the number of recommendations formulated by the Board has more than doubled, from 208 (1998-1999 biennium) to 335 (2000-2001) to 509 (2002-2003). Of the 509 recommendations made by the Board, 235 (46 per cent) had been fully implemented by 31 May 2005, while 230 (45 per cent) were under implementation and 44 (9 per cent) had not been implemented at all. The Committee notes that, along with an overall increase in the number of recommendations, the implementation rate also increased from 34 per cent (2000-2001) to 46 per cent (2002-2003). Meanwhile, the percentage of recommendations remaining to be fully implemented decreased from 58 per cent (2000-2001) to 45 per cent (2002-2003). The Board noted in its report that the increase in the number of recommendations was partially attributable to the fact that individual recommendations were issued in lieu of multi-component recommendations.[12] **The Committee points out, however, that statistics alone do not give the full picture; non-compliance with procedures, rules and regulations continues to be a serious problem. The Committee trusts that more light will be shed on this problem with the use of impact analysis, as requested in paragraph 18 above.**

Cross-cutting issues

21. The Advisory Committee also identified a number of cross-cutting issues addressed in the report of the Board of Auditors; some of these issues are discussed below.

22. With regard to hiring, remunerating and evaluating the performance of consultants and individual contractors, the Board of Auditors reiterated its observation that some departments and entities (Department for General Assembly and Conference Management, Department of Political Affairs and Economic Commission for Latin America and the Caribbean) do not adhere to administrative instructions.[13] **The Advisory Committee agrees that the recommendation regarding the need to fully report and adhere to established procedures should be implemented without any further delay.** The Board recommended, and the

United Nations Population Fund (UNFPA) agreed, that contracts for consultants should be finalized prior to the commencement of employment.[14] **The Committee points out that the delayed signing of contracts is also an issue with other entities, such as the United Nations Environment Programme.[15] The Committee agrees with the Board that all funds and programmes should ensure that contracts are signed in a timely manner. The Committee trusts that the Board will follow up on the matter**. With regard to consultants specializing in training, the United Nations System Staff College clarified, in response to a recommendation by the Board, that it had established a consultant database (available at www.unssc.org/cr) for system-wide use.[16] The Committee notes that the main page of the website indicates that, as at 20 September 2005, 585 consultants and a total of 38 agencies were registered. The Staff College indicated in its response to the Board that United Nations Headquarters seemed not to be aware of the database. **The Committee points out that, since the Staff College has developed the database, it would be the College's responsibility to inform potential users of its existence, in particular in view of the fact that the database requires user registration and permission**.

23. With regard to end-of-service and post-retirement benefit liabilities, the Board notes that a number of entities audited (e.g., United Nations Conference on Trade and Development/World Trade Organization, United Nations University, United Nations Development Programme (UNDP), United Nations Relief and Works Agency for Palestine Refugees in the Near East, United Nations Institute for Training and Research (UNITAR) and UNFPA) were found lacking. The Advisory Committee was informed that the entities were awaiting the issuance of a report on after-service health insurance benefits during the sixtieth session of the General Assembly, to be used as policy guidance.

24. **The Advisory Committee notes that the Board has made a specific recommendation to the Economic Commission for Africa with respect to the need to implement a code of ethics and the signing of "declarations of independence" by all staff members involved in procurement.[17] In this respect, the Committee points out that this matter has been of great system-wide concern for a number of years. The Committee has requested during a number of meetings with the Procurement Division, the Office of Legal Affairs and the Office of Human Resources Management, all of which collaborate regarding the creation of such documents, that a code of ethics be prepared without delay. The Committee notes that, despite a promise to promulgate such a document by the end of the third quarter of 2005, it still has not been finalized. The Committee remains concerned about the absence of a formal code of ethics and looks forward to the follow-up report of the Board in this respect**.

25. The Board makes a number of recommendations regarding ongoing problems with the UNDP Atlas system. Since Atlas is used by a number of entities (e.g., UNFPA and United Nations Office for Project Services (UNOPS)) for administrative and financial matters managed by UNDP, this has caused operational delays. The Advisory Committee agrees with the Board that UNDP needs to expeditiously intensify its efforts in addressing such problems.

26. The Board's findings indicate that a number of entities do not have adequate fraud detection and prevention measures in place, e.g., UNITAR, UNPFA and UNOPS. **The Committee agrees with the Board on the importance of this matter**

and anticipates an update on the progress made regarding fraud-related matters in the Board's follow-up report.

Other

27. The Board pointed out that UNICEF deviated in several instances from United Nations instructions regarding staff entitlements and confirmed its recommendation that UNICEF comply with staff rule 112.2.[18] UNICEF responded that it believed that its application and administration of staff entitlements were within the broad framework of the Staff Regulations and Rules, taking into account the operational flexibility required to meet the overall goals and objectives of the Organization. **The Advisory Committee agrees with the Board that UNICEF is required to adhere to the Organization's regulations and rules. During the deliberations, the Committee was informed by the Board that UNICEF believed that its unique operational flexibility would entitle it to a similar flexibility when it came to adhering to regulations and rules. The Committee expects UNICEF, like other United Nations funds and programmes, to fully comply with United Nations regulations and rules and will discuss the matter with UNICEF during the sixtieth session of the General Assembly. The Committee anticipates a follow-up report on this issue by the Board.**

28. The Board of Auditors found that UNITAR funding sources for the General Fund remain fragile and dependent on donor interest and recommended that UNITAR find a way to build up its General Fund.[19] The Advisory Committee points out that, as noted by the Board, the financial situation of the UNITAR General Fund improved significantly in 2004, with income exceeding expenditure by over $400,000, as compared with a shortfall of $130,000 in income relative to expenditure at the end of the previous biennium. The Committee is encouraged by the improvement of the UNITAR financial situation and encourages the Board to develop concrete management audit recommendations with specific suggestions to aid its audit client to undertake a gradual build-up of its General Fund. The Committee will be issuing a separate report on the financial situation of UNITAR during the sixtieth session of the General Assembly.

Notes

[1] *Official Records of the General Assembly, Sixtieth Session, Supplement No. 5E* (A/60/5/Add.5).

[2] Ibid., chap. I, para. 26.

[3] Ibid., chap. II, paras. 123-129.

[4] *Official Records of the General Assembly, Fifty-eighth Session, Supplement No. 5E* (A/58/5/Add.5), chap. II, para. 115.

[5] A/58/384, para. 11.

[6] *Official Records of the General Assembly, Sixtieth Session, Supplement No. 5E* (A/60/5/Add.5), chap. II, para. 243.

[7] Ibid., paras. 258-259.

[8] See ST/SGB/2003/7.

[9] *Official Records of the General Assembly, Sixtieth Session, Supplement No. 5E* (A/60/5/Add.5), annex I.

[10] A/60/113.

[11] Ibid., table 1, footnote c, states that the implementation of recommendations by the United Nations Compensation Commission is reviewed in a separate report.

[12] Ibid., paras. 6-7.

[13] Ibid., paras. 74-76.

[14] Ibid., paras. 533-534.

[15] Ibid., para. 502.

[16] Ibid., paras. 106-107.

[17] Ibid., paras. 102-103.

[18] Ibid., paras. 379-381.

[19] Ibid., paras. 451-453.